Factsheet on Financing Vocational Education and Training

October 2009

Introduction

In times of economic crisis, it is likely that the demand for vocational education and training (VET) will increase - many people who have lost their jobs will try to get access to new jobs by learning new skills and young people are likely to stay longer in education to increase their chances to access the labour market later on. This creates additional pressures on the available budgets for education and training, which would already be constrained due to the crisis. There arises therefore the necessity to reflect upon the methods of financing VET so as to consider ways in which this new demand can be met. In this light, this factsheet aims to provide a brief overview of existing financing schemes for VET, as a background for further discussion on the topic.

At the outset, two remarks must be made with regards to definition of 'VET' and of 'the learner'. Firstly, methods of financing depend on the political, social and economic context in which VET is defined. For the purpose of this overview, a very broad definition of VET is used, as given by UNESCO:

> *[VET is] …'a comprehensive term referring to those aspects of the educational process involving, in addition to general education, the study of technologies and related sciences, and the acquisition of practical skills, attitudes, understanding and knowledge relating to occupations in various sectors of economic and social life'* (UNESCO, 2001, 2).

While VET preferably takes place in dedicated schools or institutions combined with apprenticeships, the definition used here includes on-the-job training, non- and informal learning and other learning as well. Indeed, a VET qualification can range from entry-level to a continuing education qualification – these different levels usually have very different financing schemes.

Secondly, especially in the current context, one comes to realise that the VET student body is increasingly diverse. Students in VET can be young people who are trying to obtain an entry-level qualification; younger or older unemployed persons who have recently lost their jobs; younger or old workers who are trying to learn something new or to reach a higher qualification level; etc. Financing mechanisms for these different groups can differ both between and within countries, making it harder to understand how financing for such VET systems works.

Who Pays?

As VET is often funded by a diverse array of sources, it is first of all important to ask 'who pays?' and indeed 'what kind of money?' for the provision of VET. There a number of groups, identified below, which contribute financially to the provision of VET. These groups are:

- **States:** At different administrative levels, these mostly pay for public provision of VET for entry-level qualifications. They can also contribute via labour market policy in the case of provision of schemes for the unemployed. Increasingly, governments also make funds available for in-service training and lifelong learning.
- **Employers**: These can pay for both public and private provision of VET as well as for both entry-level qualifications and less formal education. They can pay through levy-systems on the payroll, or they can directly buy education and training provision carried out by schools and private companies. They can also provide in-house training by employing special instructors.
- **Employees:** Where employees seek continuing vocational training, these can be made to pay directly for their VET through fees or indirectly through accepting lower wages for a training period. Sometimes, systems such as 'individual learning accounts' are available via which

employees build up a reserve of paid training leave by contributing a part of their salary to such leave. In a system of apprenticeships, they can also be made to accept lower wages during the period of apprenticeship or be made to pay for it out of their own pocket.

- **Students:** Where students seek entry-level qualifications, these can be made to pay directly for their VET through tuition fees or at a later stage by accepting a public or private loan for the period of duration of their education.
- **Schools**: These raise (limited) revenue by selling products made by students or by selling courses and training material on the market.

As not all groups can be said to pay for VET in every case, their financial contribution differs between countries, regions and according to the type of education provided. Of course the matter of who is made to pay is a matter of public regulation, and the extent to which a certain group contributes reflects a political interpretation of who benefits.

Which Financing Schemes Exist?

Financing models can only be described in ideal-types. These never fit reality, as actual arrangements are usually a mix of different types. In some countries, it is hard to actually speak of a 'financing system', as no clear line can be drawn around the system of financing VET in relation to the system of financing education generally. However, in order to allow for some analysis, the following rough models of VET financing can be considered:

- **Public Systems**: Public funding can be given to VET schools much like in general education. An amount is given to schools based on the services they provide, often with a funding formula that includes a calculation based on the number of students enrolled in a given school. The German system of funding VET comes close to such a model. Kath (1998) explains how the German state bears the costs accompanying instruction in part-time vocational schools, although companies take care of training their employees. The notion behind such a system is that education financing needs to be predictable and secure in order to allow future planning and maintain quality. Also, schools in such a system will find it easy to absorb short-term imbalances in student numbers, as these will not greatly affect their resources. However caution is to be used in using the term 'public system'. Modalities of public lumpsum funding can also include performance-based contracts or tendering.
- **Levy Systems:** A levy is a type of tax for a specific purpose that is added to a company's general payroll. The idea behind the levy system for VET is that all companies are to pay a special tax for training, according to the wages they pay and the amount of people they employ. As individual companies generally tend to underspend on the educational needs of their employees, a collective fund is seen to be more effective. In many cases, social partners and governments jointly created these systems in order to raise the training level of workers. These levies typically amount to about 1-2 percent of the payroll, which flows into a fund out of which companies can pay for training. As they apply to all companies, the funds are quite stable. Social partners often administer these funds per sector. Sometimes, they are therefore referred to as 'sectoral training funds'. Gasskov (1998) identifies three models of levy-systems in Europe:
    - *Revenue generating levies* (such in Denmark), which are assessed on company payrolls. Governments use the money for funding national VET initiatives. This is mostly aimed at financing labour market training for the entry-level workforce and the unemployed, and the fund is often complemented by a subsidy from governments;
    - *Levy-exemption schemes* (such as in France), which establish minimum levels of employer investment in training as a percentage of a company payroll. Employers can be exempt from or reduce their levy obligations if they provide a minimum level of training for their

employees. These systems mostly focus on financing training for employees and apprentices; and

- *Levy-grant schemes* (such as in Sweden), which assume that payroll contributions are collected from enterprises or employees by specially-established funds and distributed to firms or individuals as grants. These grants usually do not closely reflect firms' levy payments and can be destined towards priority training programmes set up to strengthen training facilities in individual enterprises and the development of sector training curricula, advisory services, etc.

- **Semi-Market Systems:** In recent years, so-called 'individual learning accounts' (ILAs) have become popular measures to incentivise demand for and provision of VET (cf. CEDEFOP, 2008). The idea behind such systems is that market incentives will increase the provision and the quality of training. They are directly aimed at stimulating demand, giving the individual the choice where to take up training. These can take different forms, as outlined below, such as voucher schemes or personalised accounts (like a personal bank account for training), although they are based on the same principles of choice:
  - *Saving schemes* allow account holders to set aside money regularly to be used at a later stage in life for (paid leave for) training. Regulations establish tax breaks to individuals investing in these funds, or government or employer contributions matching the investment made by individuals. As they are often lifelong schemes, they allow a person to make use of the fund several times during his or her career. They are probably not as effective for VET, since they aim for the wrong target group – as people with lower qualifications usually do not have a high enough salary to save for training, they are only used by people who already have a higher education qualification.
  - Public authorities issue *vouchers* or education cheques to individuals to allow them to take up training at authorised schools of their choice. They can be given for free or bought at a discounted price to introduce an element of 'cost-sharing'. Schools receive funding according to the vouchers they collect. In such systems, it is assumed that education providers compete for students, raising quality and efficiency. However past experience of this has not been so positive (cf. West, Pennell and Edge, 1998)

- **Privatised Systems:** It is often argued that investing in general education is more cost-effective for governments in developing countries than investing in vocational education and training. In some cases, VET is therefore left almost entirely to the market, laying the burden to invest with individual employees and employers. In order to stimulate demand, governments sometimes guarantee *public or private loans* to cover education and living costs. They can also stimulate provision by *tax breaks for training companies* or by providing the necessary infrastructure. It is however hard to speak of an actual system in these cases.

Bibliography

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